Manufacturing: a local and regional perspective

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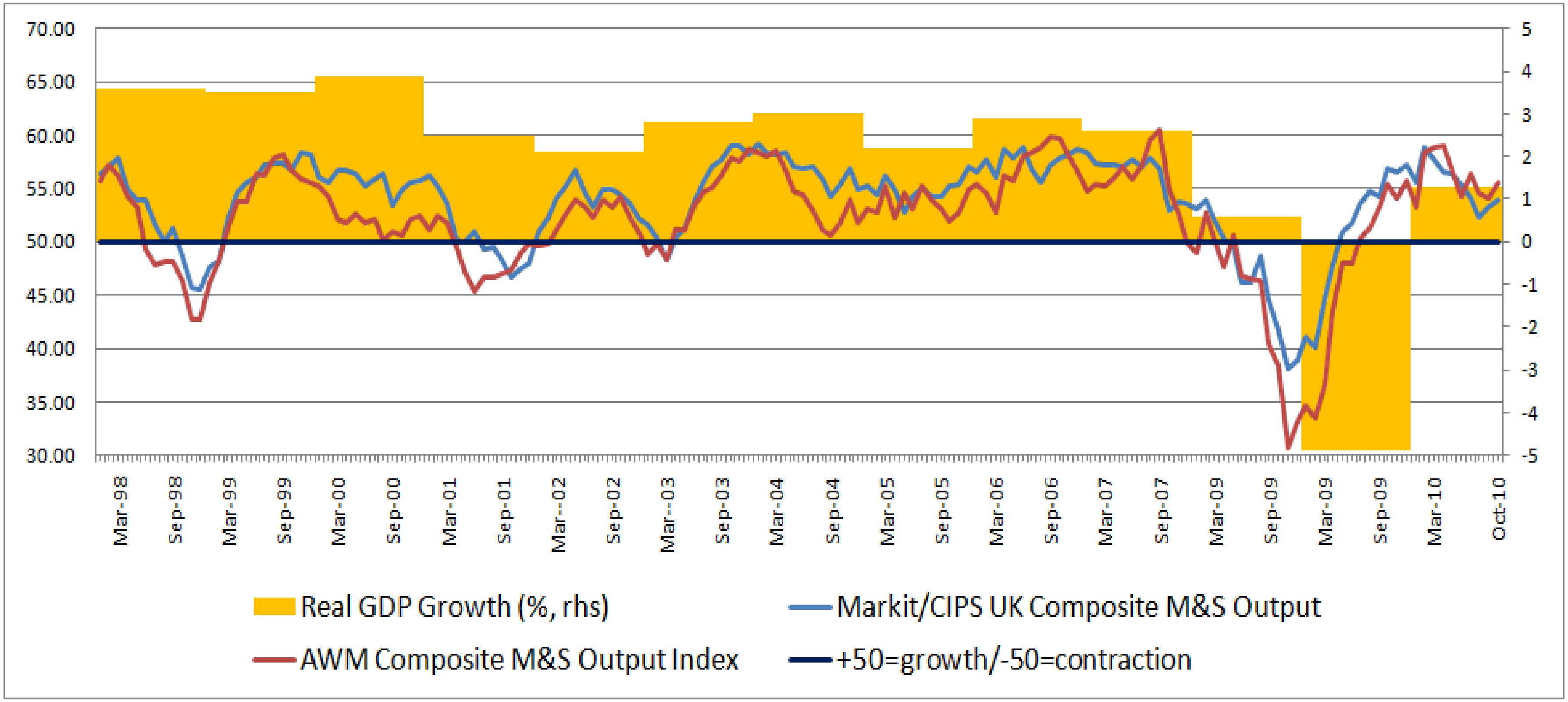
Manufacturing: a Local and Regional Perspective

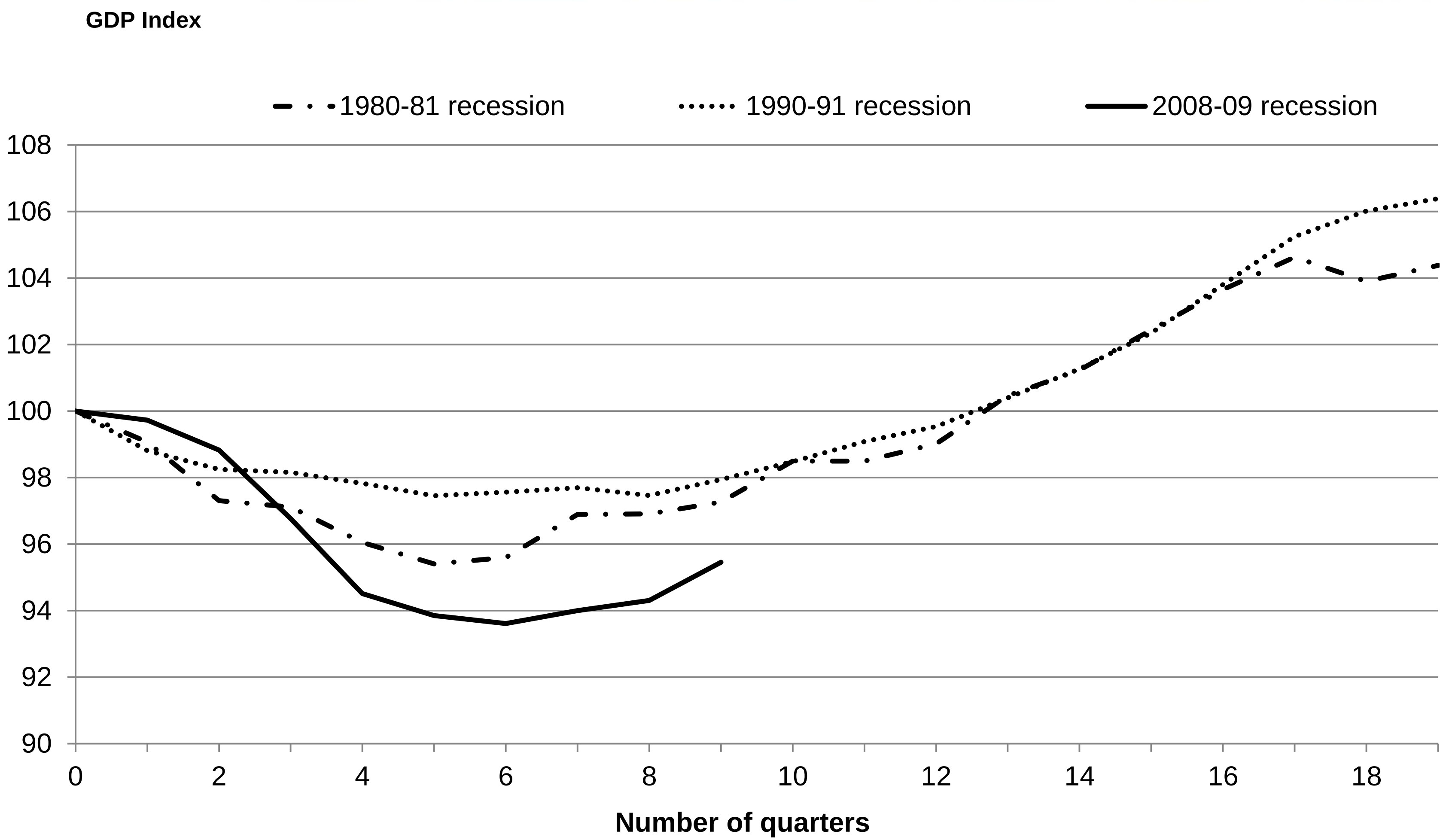
- **Manufacturing output contracted by 15% during the recession. Not what was forecast initially…**
- **Twelve months our work with Deloitte highlighted a number of important issues facing manufacturing at that time.**
- **Growth in export markets, skills and credit availability were among the top priorities for the manufacturing sector and could help trigger a mini-renaissance.**
- **This could help the UK rebalance its economy and export its way out of recession: BUT we argued what was also needed was a much more supportive economic policy framework**
- **What actually happened over 2008 – 2010 ?**

Recent economic trends

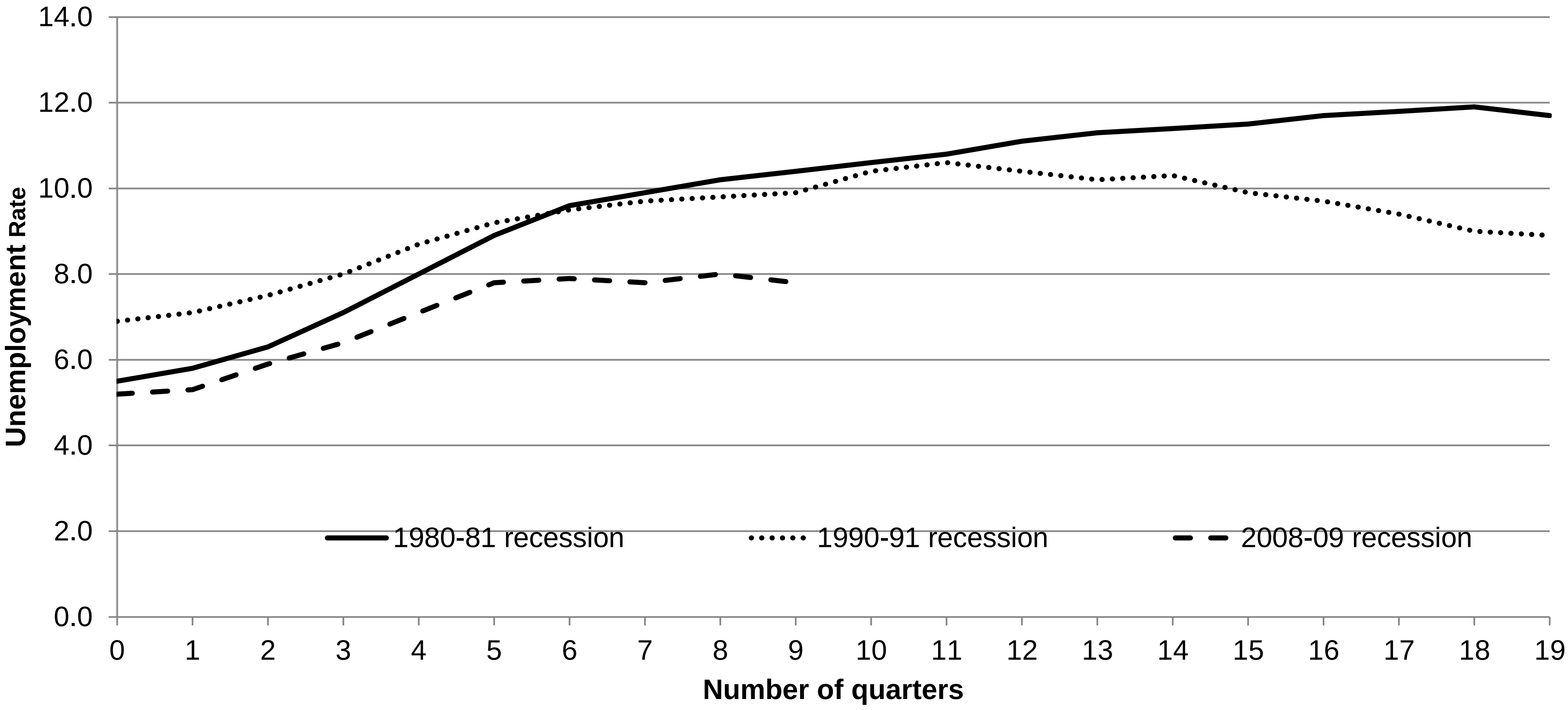
Source: Forrest Research



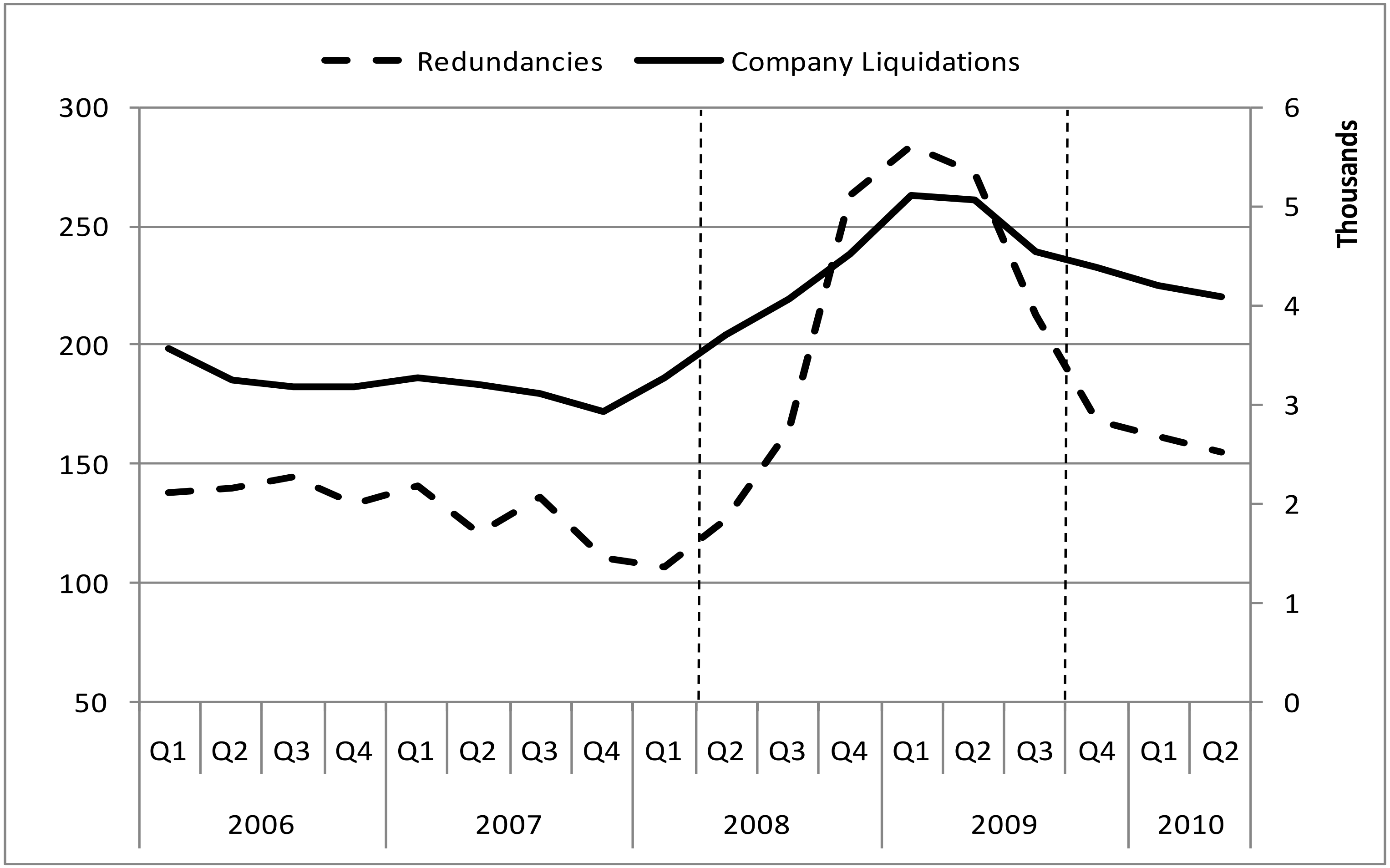
Output falls in the last 3 recessions



Unemployment rises in the last 3 recessions



Redundancies and Company Liquidations 2006-2010



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What Happened?

- **Official statistics?**
- **Positive steps taken by government, businesses and employees working together to minimise impacts.**
- **Labour market flexibility: firms retained skilled staff by cutting back on hours (part-time working), imposing wage freezes or cuts → 'labour hoarding'.**
- **Productivity: fall of 2.4 per cent over 2008 and 2009 (output per hour worked); also influenced by a bigger fall in business investment than earlier recessions – linked to credit crunch?**
- **Credit crunch also explains depth of the recession, and the relatively slow pace of recovery in productivity following the end of the recessionary period.**

Firms' Strategic Responses to Recession

- **Revenue generation; cost reduction; or asset reduction.**
- **Cost control BUT manifested differently to past recessions:**
- **Labour hoarding, pay freezes, limits on overtime, short-time working, recruitment freezes, banking of hours, pay cuts, reduced shift-patterns, more flexible working, and use of fixed-term, temporary and agency staff, tele/remote working where possible.**
- **SMEs: enhanced revenue generating activities.**

Why were firms more resilient in *this* recession?

- **A supportive macro-economic environment, including depreciation of sterling.**
- **The relative health of UK firms prior to the downturn.**
- **The inherent flexibility of the UK labour market.**
- **The collective approach to addressing the impacts of recession taken by government, businesses, unions and employees.**

Manufacturing in 2010

- Various reports → manufacturing sector has delivered the goods, has exported its way out of trouble, and helped rebalanced the economy.
- Growth in 2010: around **3.7.** Some regions: two-speed recovery.
- But: from a very low base. Restocking – not going to last forever.
- Sterling depreciation; export growth but not as much as hoped for. Why?

Manufacturing in 2010

- A more competitive manufacturing sector has expanded output and taken on new workers at an earlier stage of the recovery.
- Confidence? PMI holding up well above 50 after falling since May. But fears of a slowdown.
- Rapid bounce back: around a half of the manufacturing output fall has been recovered.

2011 and Beyond?

- Manufacturing growth: holding up so far, but slower next year as dark clouds on the horizon?…
- Externally: growth in the US and the World economy?
- Volatility in the Eurozone – our major export market. Can exports be sustained? Need for an export push to new emerging markets further afield.
- AND will sterling remain low? Or appreciate against the euro as further weaknesses in Eurozone play out?
- AND: How will the fiscal cuts impact on the economy? Monetary policy? Maybe still in the new year.
- Cuts in support for business – RDAs. LEPs?

Spare Capacity?

- **Spare capacity so manufacturers able to increase output rather than prices, but for how long?**
- **How much capacity was lost or will be lost for good? If capacity loss significant then capacity limit will be hit sooner rather than later.**
- **At that point prices go up unless there is longer-term investment in capacity and productivity growth: getting the banks to lend to firms (and firms to borrow from banks) is key (Project Merlin?).**
- **Risk that prolonged weak demand will make temporary losses in output structural and permanent.**
- **GROWTH and INVESTMENT is critical → BCRS Report**

Need for future flexibility...

- Mucking-in' by all stakeholders during downturns.
- Consumer goods manufacturers: high-value end of the market – prestige autos or even whisky producers in Scotland.
- UK Manufacturing plc also does well in certain manufacturing sectors that are anyway more cyclical.
- Cycles at the luxury-end of manufacturing are generally more pronounced - high 'income elasticity of demand'
- Do more to support such highly cyclical industries during the 'downs': put a floor under capacity + retain the skills base.
- Contrast with Germany for example.

Broader Economic Issues

- Level of demand in the UK economy – impact of fiscal tightening.
- ‘Balance Sheet’ recession? Japanese experience.
- Money Supply – M4 falling – need for more ‘QE’?
- Bank lending and investment – bypass the banks if need be?
- The level of sterling.
- Supporting exporters in new markets.
- Training and education for an increasingly high-skill and high-tech industry needs.
- Industrial Policy? Despite the language of localism, being

West Midlands: Long Term Poor Performance

- long-term underinvestment in infrastructure

- an ongoing process of deindustrialisation and a wider economic structure reliant on low growth sectors

- a relatively poor business and employment performance in the private sector

- a relatively poor education and skills record

- relatively poor performance in developing ‘knowledge economy’ sectors and in R&D spend

- pockets of high levels of unemployment and worklessness

A Co-operative Approach to Small Business Lending

Paul Kalinauckas
Chief Executive
Black Country Reinvestment Society

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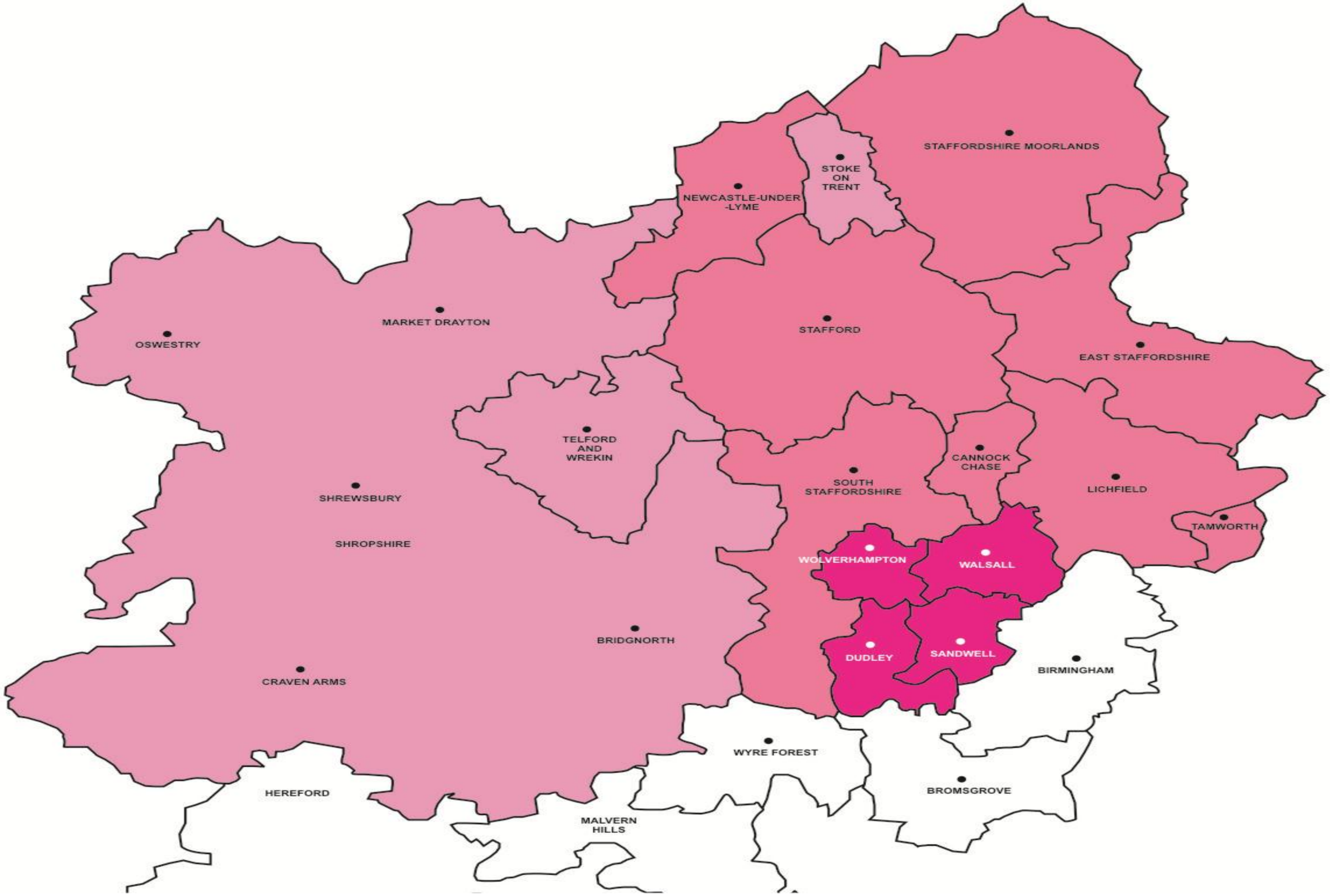
BCRS Operational Area: Current & Projected



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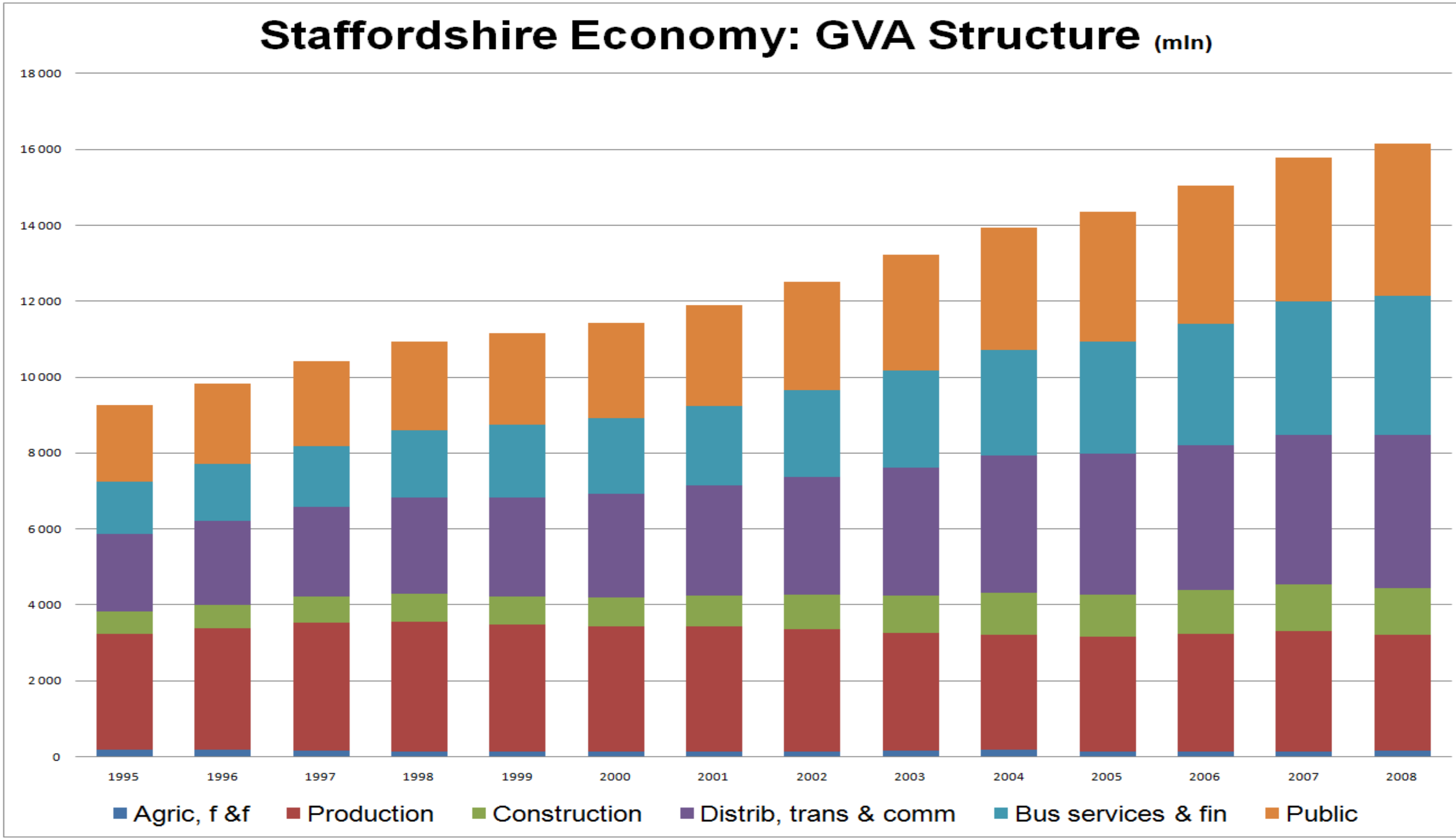

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Our Environment

Est. in 2002 as Community Development Finance Institution
issuing loans up to £25,000 – now £50,000

Migrating to become Small Business Loan Fund
prospect of increasing loan range up £250,000

Current Loan Book to Q3 2010 a *cumulative £6 million*

Forecast by 2016 *£18 million*

Ethos to provide a co-operative lending framework to enable Small Businesses to expand and realise growth potential

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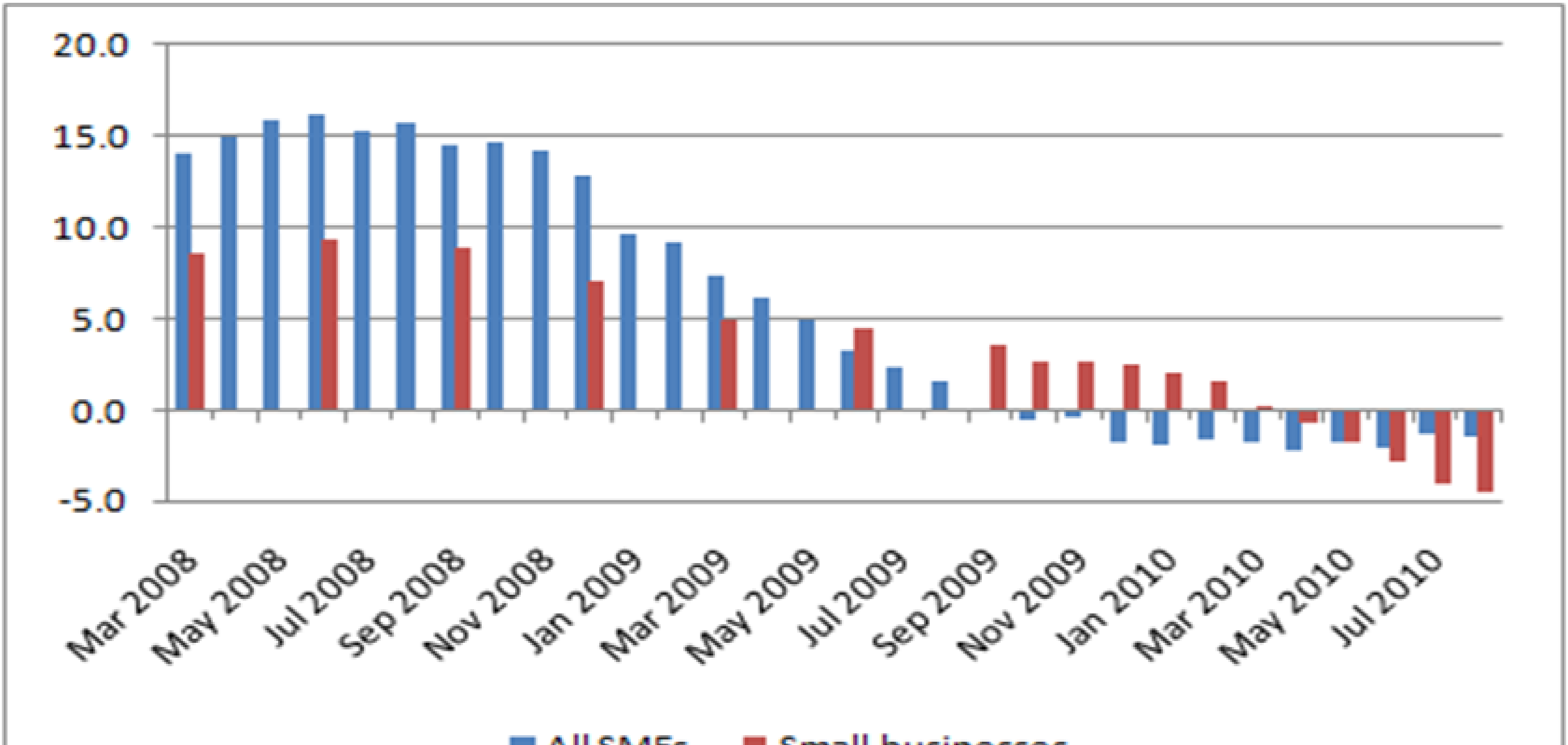

Source: BoE

Lending to SMEs & Smaller Businesses continues to contract

Data scarce – BoE monthly data series only started in Q3 2009, covering 65% of lenders

BCRS Small Business Loans

Use of business finance across different sized firms					
	Turnover	Broad Characteristics	Use of regular finance	Use of specialist finance	Typical Providers
Smallest Micro Businesses	Below £50,000	Cash-based firms, often part-time business; few tangible assets; local operations	Limited mainly to overdraft, loans, & credit cards or personal finance products	Limited. Some asset-backed lending (ABL) – mainly vendor finance	Banks, credit card providers & point of sale (vendor finance).
Micro Business	£50,000 to £1 mln	Increasingly fulltime firms with staff, premises, & assets; local activity normally limited to single region; occasional exporting.	Overdraft, loans & credit card	Increasing use of structured ABL. Occasional use of trade finance products	Banks, credit card providers, specialised providers for ABL & trade products
SMEs	£1 mln to £25 mln		Overdraft, loans	Still some use of ABL, factoring & invoice discounting, export finance & some equity funding.	Banks, credit card providers, specialised providers, business angels , private equity
Mid-sized companies	£25 mln to £500 mln	Larger national & international firms, often multinational operations	Full-time, larger multi-regional & national firms; increasing export/import activity.	Export finance, invoice finance, & equity funding	Banks, venture funds, equity funds & stock market listing
Source: Supporting UK business: the Report of the Business Finance Taskforce, October 2010					

BBA Taskforce covered everything apart from CDFIs & SBLFs

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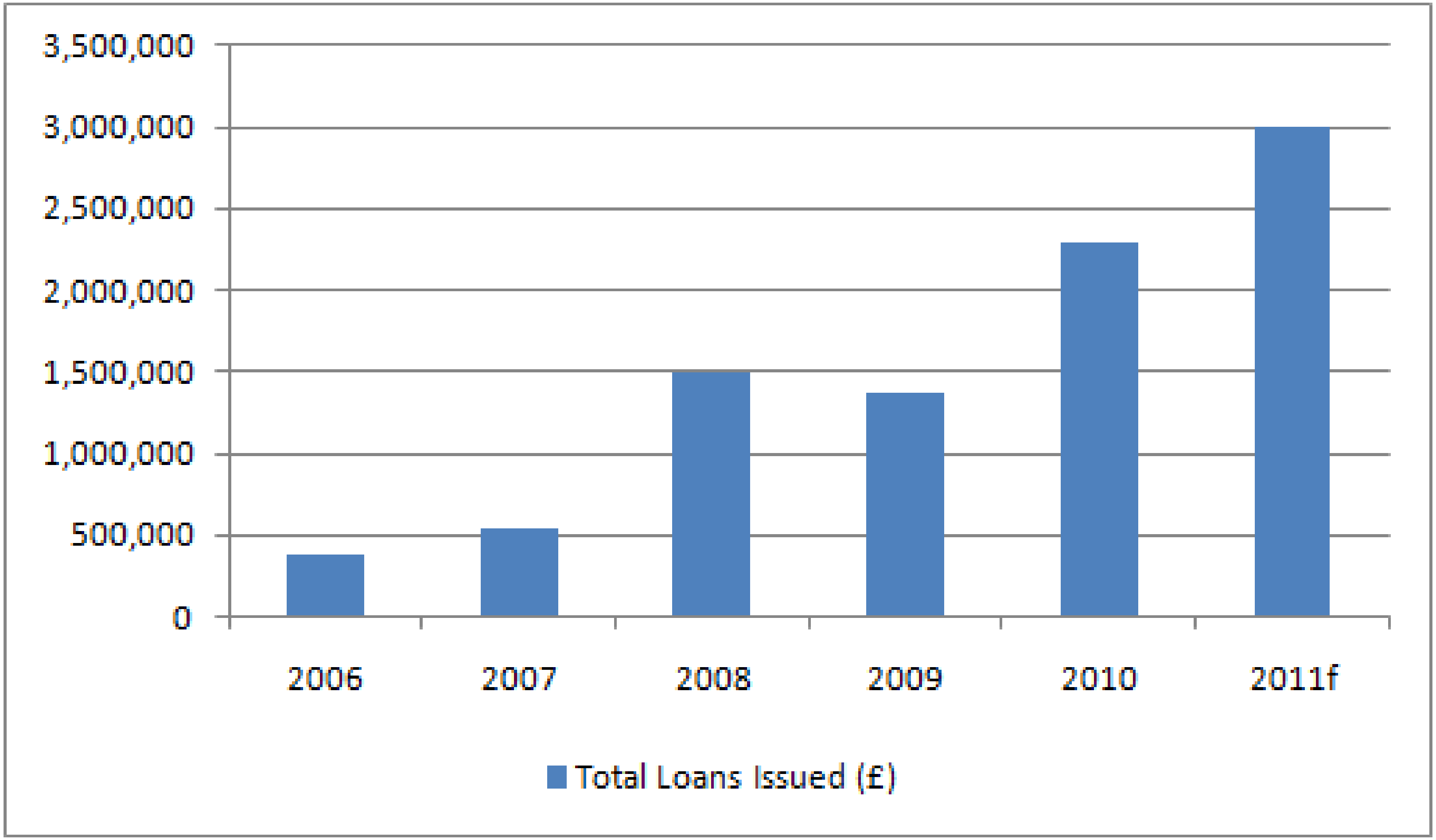
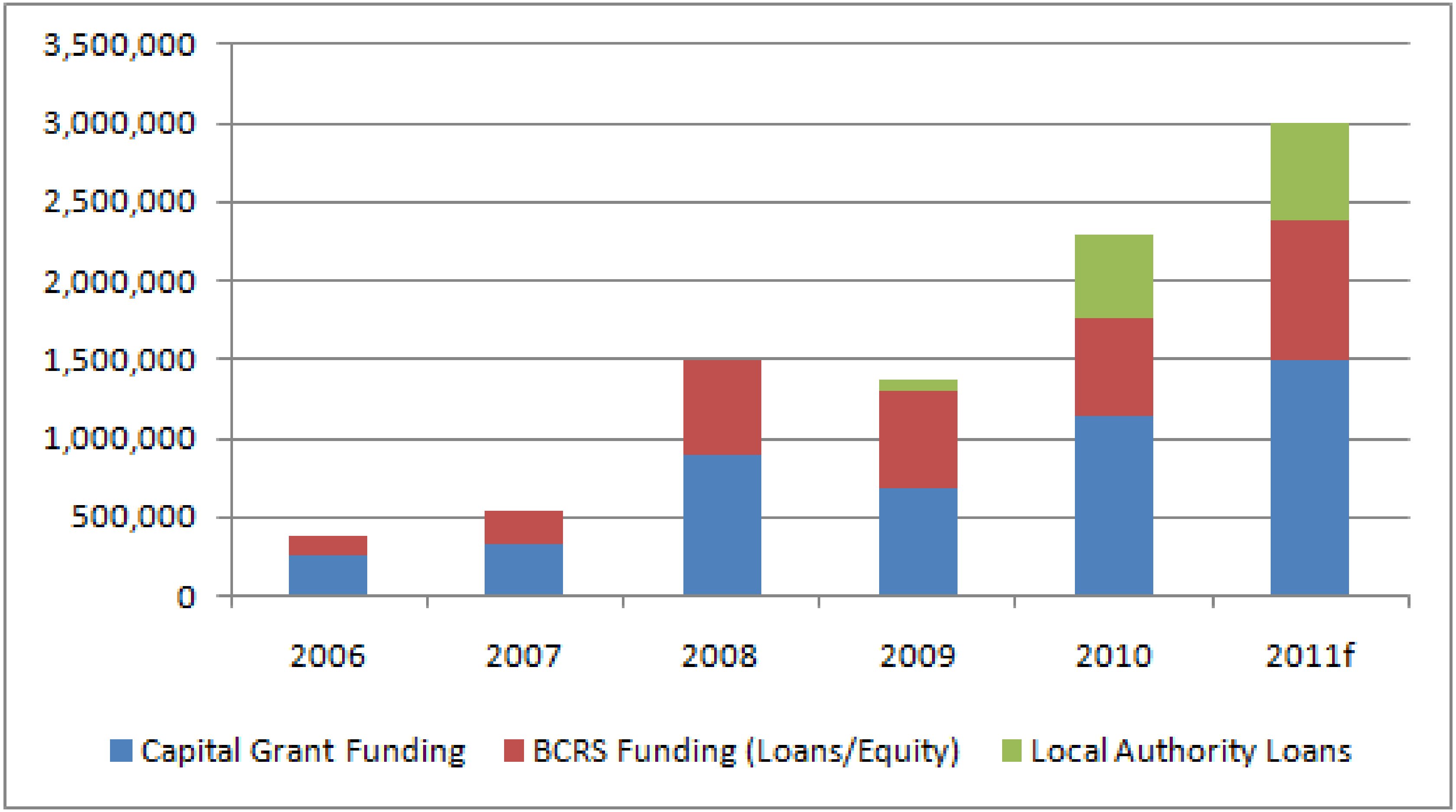


BCRS lending growth has been robust...........

BCRS Small Business Loans



..........and matched by capacity to raise funding.....

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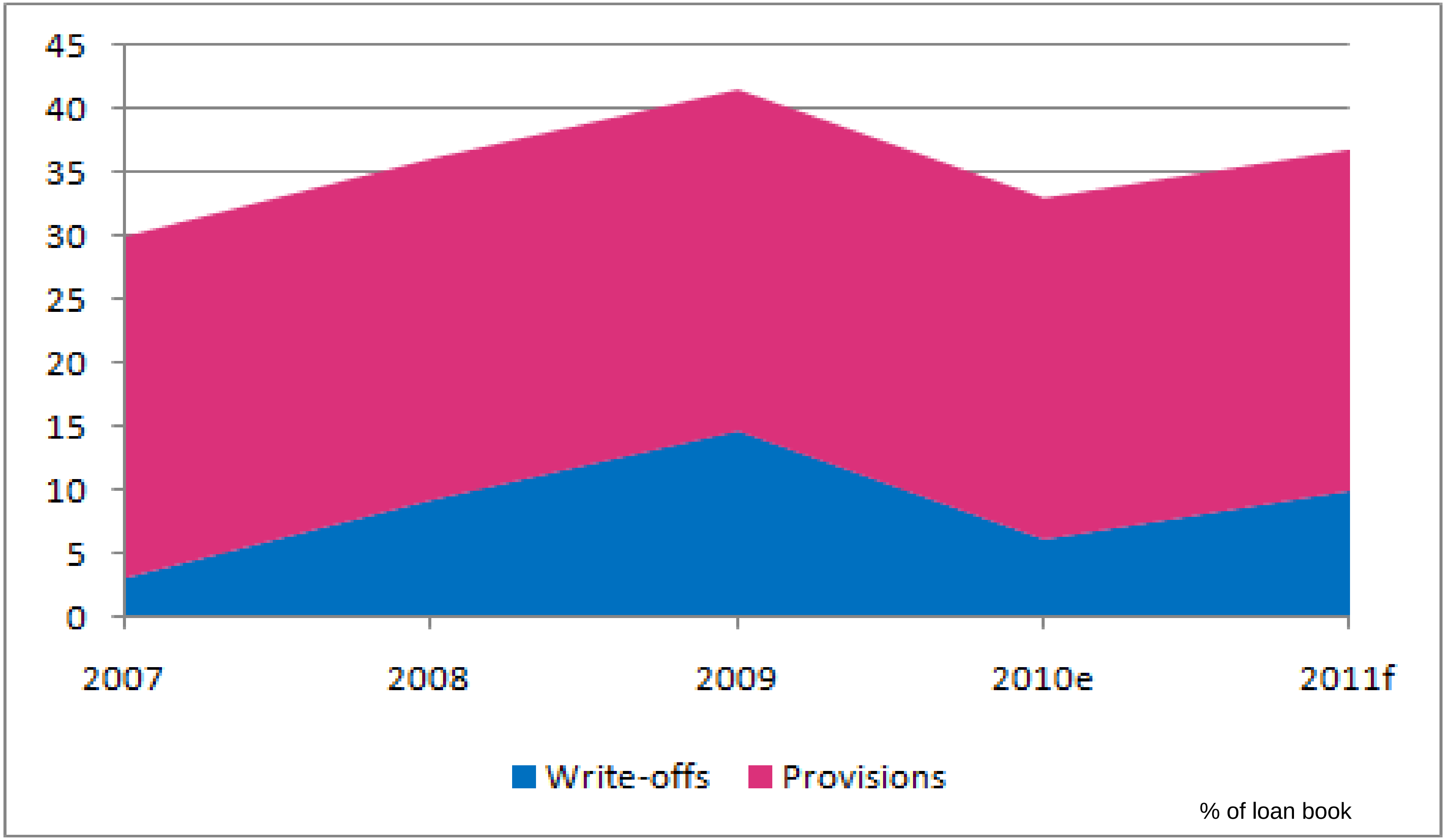

……with management of NPLs and Write-offs key to sustainability

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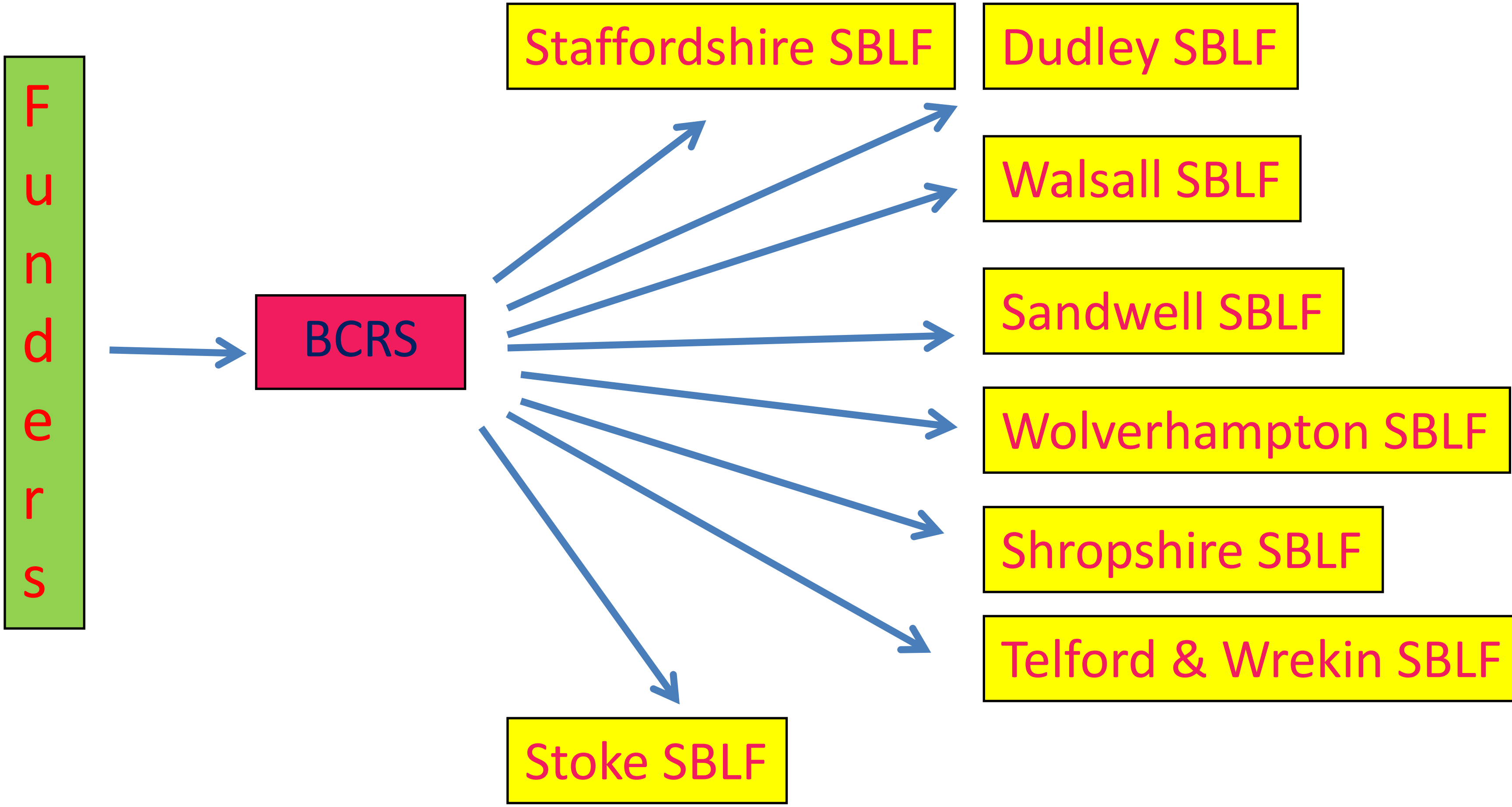
Managing Targeted Loan Funds in a High Risk Sector

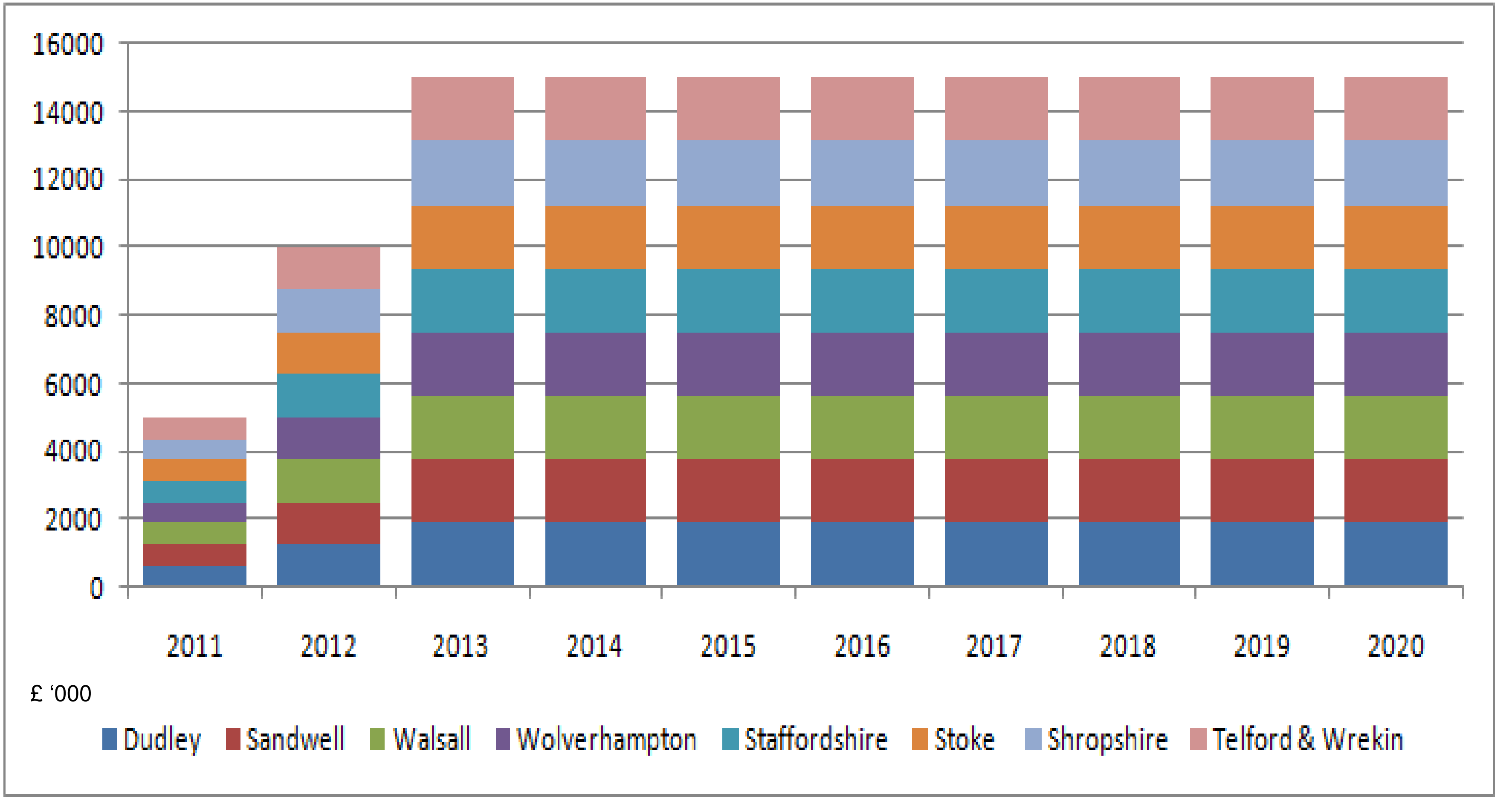


.....disaggregating risk,

....absorbing provisions

...achieving medium-term sustainability

Growth via geographic and ultimately sectoral diversity



Assumes £ 625,000 new lending per SBLF p.a.
& average loan term of 3 years with 37.5% provision
achieving total lending of £ 25 million by year 5
& £ 35.5 million by year 8

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Fund Raising Sources

- English Public Sector
  - National
  - RGF
  - Local
- EU
- Commercial Banks
- Co-operative Funds
- Corporates
- High Net Worth Individuals

Increasing leverage capacity

BCRS Small Business Loans

Post Loan Support

- Improving credit performance of small businesses

- 2-5 days of specialised support from our own panel of mentors

- Different areas of assistance to include:
  - Financial remodelling
  - Marketing Strategy
  - IT
  - Financial systems
  - Management accounting

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Post Loan Support

- Cost: Up to 2 days free of charge with remainder either subsidised or at fully commercial rates based on ability to pay.
- Funded from Interest Rate Margin & Recoveries
- Programme to be self financing in year three
- Pilot phase commenced in January 2011 moving to full programme by April
- Post Loan Support will signpost to other available help, including Government Mentoring Scheme, Local Authorities, Manufacturing Advisory Service...........

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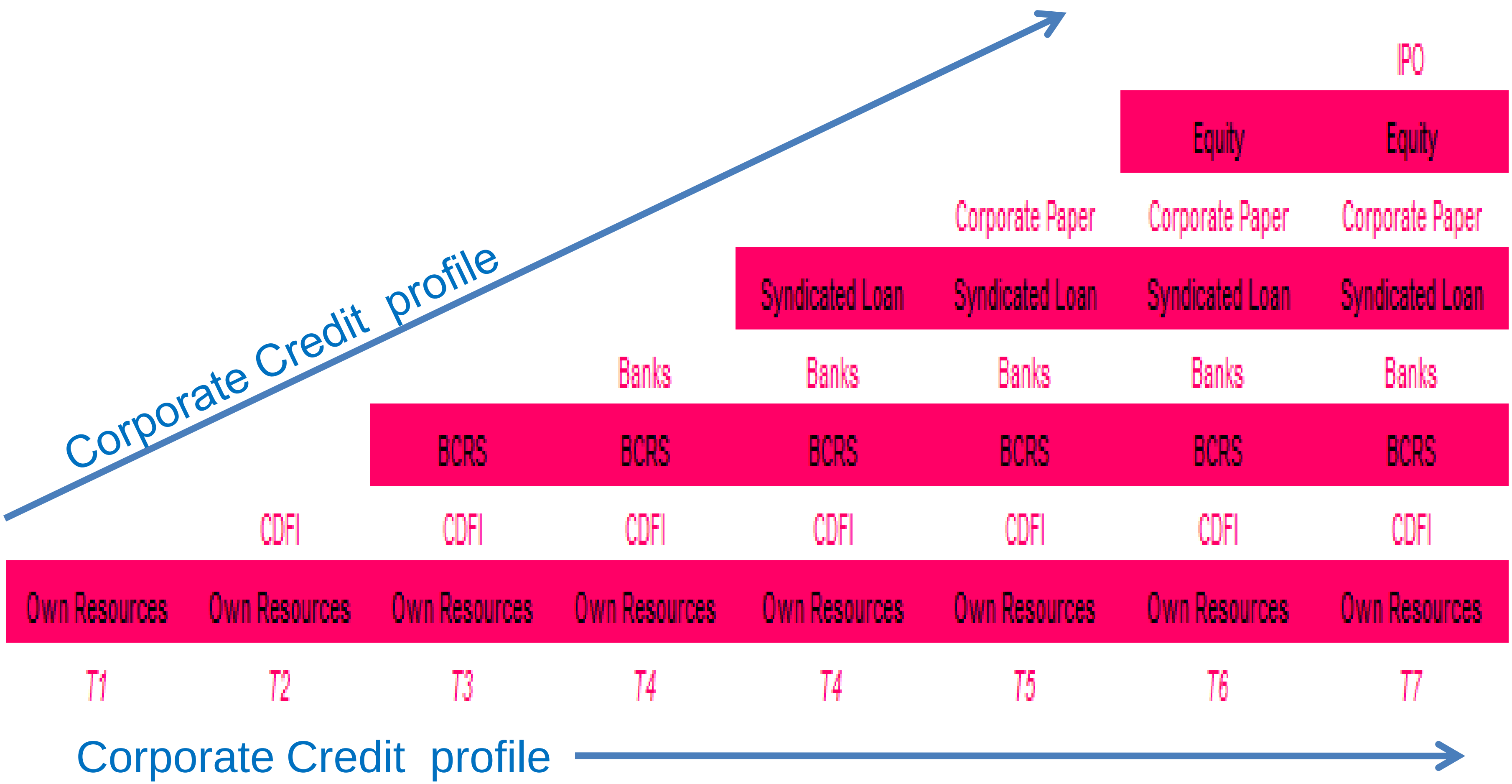
The BCRS role.......



....providing a critical link in the Finance Continuum

..providing working capital

..supporting Small Business innovation

..& developing Corporate Credit profiles

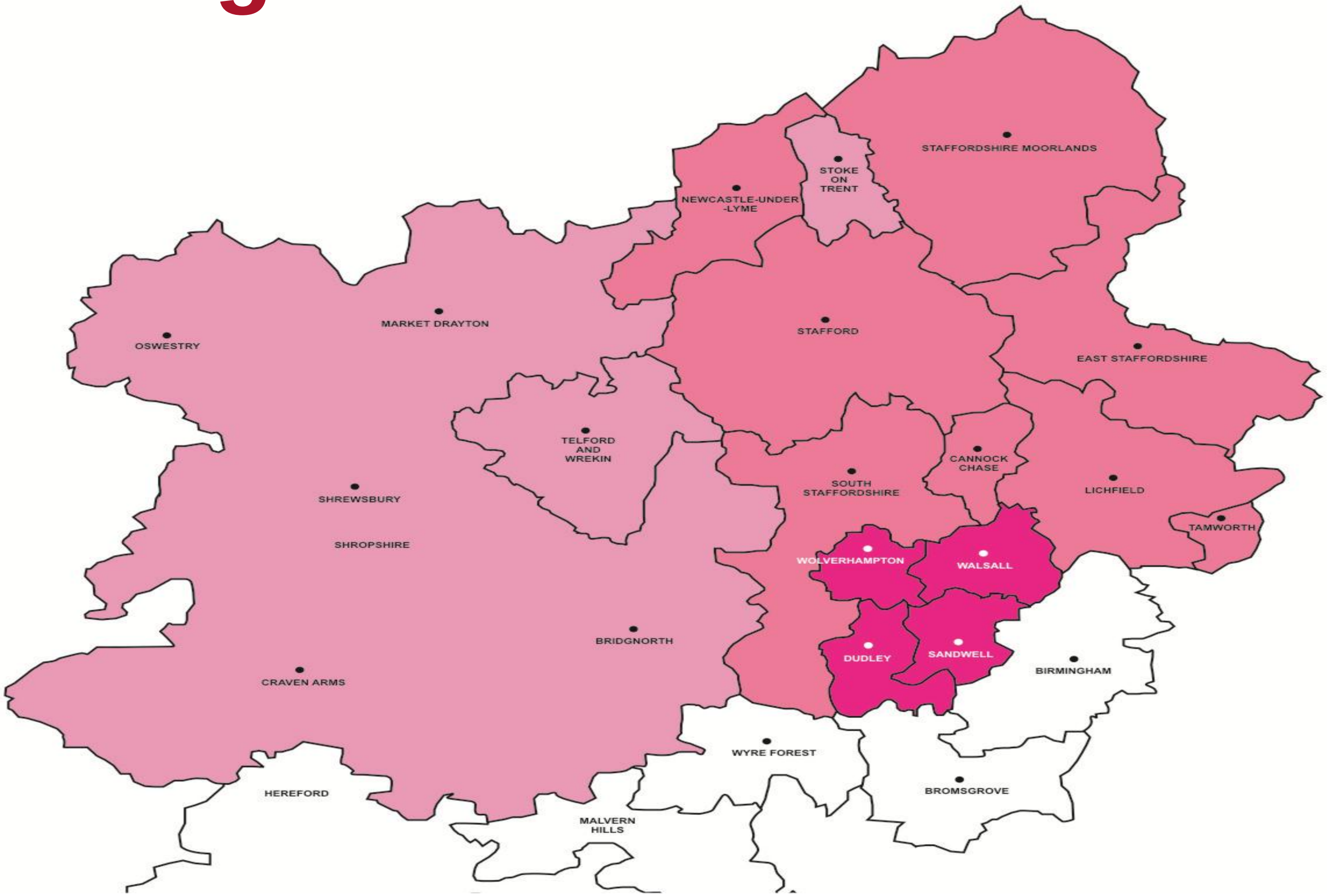
BCRS Small Business Loans

Jeremy Lefroy, MP

Stafford

Financing a Private Sector Recovery

Financing a Private Sector Recovery



WEST MIDLANDS ECONOMIC FORUM

BCRS Small Business Loans

stafford chamber